

What's Up In Withholding



Vol. 3, No. 1 March 1999

Computer Formula (Optional Withholding Method)

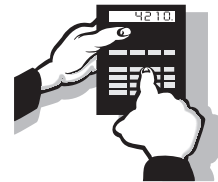
Employers may compute Kentucky income tax withholding by the computer formula shown below. **No other formula or withholding method may be used unless specific written approval is granted by KRC.** Additional information may be secured by writing the Withholding Tax Section, Revenue Cabinet, P.O. Box 1274, Frankfort, Kentucky 40602-1274 or calling (502) 564-7287.

Formula:

Gross income for pay period, **times** number of pay periods annually, equals annual gross income, **minus** standard deduction of \$1,500 (1999), or \$1,700 (2000), equals taxable income. Compute tax on taxable income from Kentucky tax rate schedule to determine gross annual tax. Gross annual tax **minus** (\$20 times number of tax credits claimed) equals annual tax **divided** by number of pay periods annually, equals Kentucky withholding tax for pay period.

Kentucky Tax Rate Schedule

2% of the first \$3,000 of net income;
3% of the next \$1,000 of net income;
4% of the next \$1,000 of net income;
5% of the next \$3,000 of net income;
6% of the net income in excess of \$8,000.



1999 Example:



Payroll Frequency
Gross Monthly Wages
One Tax Credit

Monthly
\$2,000
\$ 20

$\$2,000 \times 12 = \$24,000$
 $\$24,000 - \$1,500 = \$22,500$
 $\$22,500 \times \text{Tax Rates} = \$1,150$
 $\$1,150 - \$20 = \$1,130$
 $\$1,130 / 12 = \94.17

(Annual Gross Income)
 (Taxable Income)
 (Gross Annual Tax)
 (Annual Tax)
 (KY Withholding Tax
 Per Pay Period)

The formula for the calculation $\$22,500 \times \text{Tax Rates} = \$1,150$ is listed below:

$.02 \times \$3,000 = \$ 60$
 $.03 \times \$1,000 = \$ 30$
 $.04 \times \$1,000 = \$ 40$
 $.05 \times \$3,000 = \$ 150$
 $.06 \times (\$22,500 - \$8,000) = \$ 870$
\$1,150



Correct Mailing Addresses

If the address on the withholding tax form needs to be updated, fax the request to (502) 564-2041 or call (502) 564-7287. Provide withholding tax account number, FEIN number, previous address, responsible party name, and new address.



Wages Subject to Withholding

For Kentucky withholding tax purposes, the terms *wages*, *employee*, and *employer* mean the same as defined in Section 3401 of the Internal Revenue Code. House Bill 170 retroactively changed the Internal Revenue Code reference date to December 31, 1997, for taxable years beginning after December 31, 1996. Regulation 103 KAR 18:010 provides that "Every employer incorporated in Kentucky, qualified to do business in Kentucky, doing business in Kentucky, or subject to the jurisdiction of Kentucky in any manner, and making payment of wages subject to withholding shall deduct, withhold, and pay to the cabinet the tax required to be withheld."

Wages or other payments made for services performed in Kentucky that are subject to withholding of federal income tax are also subject to Kentucky withholding. Conversely, wages or other payments not subject to federal income tax would not be subject to Kentucky withholding.

Reminder for Electronic Funds Transfer (EFT) Filers



Employers who are approved to remit payments via EFT should be aware that all ACH Credit transactions must utilize the NACHA CCD+ (Cash Concentration or Disbursement) format with the TXP Banking Convention addendum record. The TXP Banking Convention addendum record requires the following information:

- ✓ taxpayer identification number,
- ✓ tax type code,
- ✓ tax period end date,
- ✓ payment amount type (tax, penalty, and/or interest), and
- ✓ amount of payment.

Please note the addendum requires **tax period end date**, not the due date of the return. The most common error that occurs in EFT processing is the result of using the incorrect tax period end date.

To ensure EFT payments are properly credited, each account must be registered with the Cabinet. Additionally, any changes with your bank and/or the routing number must be reported to the Cabinet.

Voluntary EFT filers are now accepted by the Cabinet. Please contact (800) 839-4137 for information concerning the ACH Debit or ACH Credit payment method procedures.

If you have suggestions for topics in future withholding newsletters, call or write your suggestions to:

Deborah B. Benassi, Unit Supervisor
Revenue Cabinet, Withholding Tax Section
200 Fair Oaks Lane
P.O. Box 181, Station 57
Frankfort, KY 40602-0181
(502) 564-7287, Ext 4142
Fax: (502) 564-2041



The mission of the Kentucky Revenue Cabinet is to provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner.

The Kentucky Revenue Cabinet does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.

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